

STATE OF ALASKA
DEPARTMENT OF NATURAL RESOURCES

Susitna Exploration License No. 1
Susitna Exploration License No 2

THIS EXPLORATION LICENSE is issued by the State of Alaska Department of Natural Resources ("the state" or "the department") to

("the licensee") whether one or more, whose address for purposes of notification is as shown in Paragraph 20.

In consideration of the nonrefundable Oil and Gas Exploration License Fee, work commitment, and performance bond, and subject to the provisions of this exploration license ("license"), including the schedules attached hereto, and by reference, incorporated into this license, the state and the licensee agree as follows:

1. GRANT. (a) Subject to the provisions contained in this license, the state grants to the licensee the exclusive right to explore for Oil and Gas and Associated Substances on the state lands described in Schedule 1 ("licensed land"), unless this license is terminated in whole or part under the provisions of this license or applicable statutes and regulations.

(b) Upon fulfillment of the work commitment contained in this license and subject to the provisions contained in this license, the state grants to the licensee the option to convert this license, for all or part of the licensed land, into one or more oil and gas leases. The option to convert the licensed land into oil and gas leases shall not apply to lands that have been relinquished, surrendered, deleted or removed under the provisions of this license or applicable statutes and regulations.

(c) If the state's ownership interest in the Oil, Gas, and Associated Substances in the licensed land is less than an entire and undivided interest, the grant under this license is effective only as to the state's interest in that Oil, Gas, and Associated Substances.

(d) The state makes no representations or warranties, express or implied, as to title, or access to, or quiet enjoyment of, the licensed land. The state is not liable to the licensee for any deficiency in title to the licensed land, nor is the licensee or any successor in interest to the licensee entitled to any refund due to deficiency in title for work commitments or other expenditures made under this license.

2. RESERVED RIGHTS. (a) The state, for itself and others, reserves all rights not expressly granted to the licensee. These reserved rights include, but are not limited to:

(1) the right to dispose of to others the surface of the licensed land subject to the license, and the right to authorize others by grant, lease, or permit, subject to the license and under such conditions as will prevent unnecessary or unreasonable interference with the rights and operations under the license, to enter upon and use the licensed land;

2) the right to explore for Oil or Gas by geological or geophysical means including the drilling of shallow core holes or stratigraphic tests to a depth of not more than 1,000 feet;

(3) the right to explore for, develop, and remove natural resources other than Oil, Gas, and Associated Substances on or from the licensed land;

(4) the right to non-exclusive easements and rights-of-way for any lawful purpose, including shafts and tunnels necessary or appropriate for working of the licensed land or other land for natural resources other than Oil, Gas, or Associated Substances;

(5) the right to well sites and well bores of wells drilled from or through the licensed land to explore for or produce Oil, Gas, and Associated Substances in and from other land; and

(6) the right to undertake any other purpose authorized by law and not inconsistent with the rights under the license.

(b) Reserved rights may be exercised by the state, or by any person or entity acting under authority of the state, in any manner that does not unreasonably interfere with or endanger the licensee's operations under this license.

3. TERM. This license is issued for an initial term of seven (7) years from the Effective Date. The initial term may be extended for no more than three (3) years, as provided in Paragraph 4. If this license is not extended as provided in Paragraph 4, it shall terminate automatically at the end of the initial term without further notice.

4. EXTENSION. (a) The commissioner may, in the commissioner's sole discretion, extend this license for up to three years beyond the initial term set in Paragraph 3 if: (1) the licensee has completed the work commitment stated in Schedule 2 prior to termination of the initial term of the license; (2) the licensee requests the extension at least one year prior to termination of the initial term of the license; (3) the licensee commits to an additional work commitment under terms approved by the commissioner, and (4) the licensee has an acreage relinquishment plan approved by the commissioner.

5. FEE. On or before the Effective Date of this license, the licensee shall pay the state a nonrefundable Oil and Gas Exploration License Fee of \$1 for each acre of land or fraction of each acre that is subject to this license.

6. WORK COMMITMENT. This license is conditioned upon the performance of the work commitment stated in Schedule 2.

7. GEOLOGIC AND GEOPHYSICAL DATA. (a) On or before each Anniversary Date of the Effective Date of this license, the licensee shall submit to the department all geologic and geophysical data obtained under this license.

(b) The commissioner will hold confidential all geologic and geophysical data submitted by the licensee until the land from which the data were acquired is no longer subject to this license, and provided that the land has not been converted to one or more oil and gas leases.

8. BONDING. (a) On or before the Effective Date of this license, the licensee must post a performance bond or other security, satisfactory to the commissioner of the Alaska Department of Natural Resources ("commissioner"), in the amount described in Schedule 3, and

(1) the bond or other security must be renewed annually;

(2) the annual bond or other security shall be calculated as the entire work commitment expressed in dollars, less the cumulative direct exploration expenditures of the licensee as of the Anniversary Date of the most recent year, divided by the number of years remaining in the term of the license; and

(3) this license is subject to annual review and revocation if the commissioner determines that the licensee has failed to provide or maintain in effect the bond or security as described in Schedule 3.

(b) If this license is surrendered or terminated before its full term has run, or not converted to a lease under the provisions of AS 38.05.134, the entire bond shall forfeit to the state.

9. RELINQUISHMENT. (a) The licensee shall be required to relinquish, or the commissioner may remove, delete, or require the relinquishment of lands under this exploration license if the conditions of AS 38.05.132 and 11 AAC 82.954 are not met.

(b) On or before the fourth anniversary of the Effective Date of the issuance of this license and on or before every Anniversary Date thereafter, the licensee shall deliver to the department a description of:

(1) the actual work completed, total cumulative direct exploration expenditures, and the percentage of the original work commitment completed; and

(2) if the work completed exceeds 25 percent but is less than 50 percent, a listing of lands selected for relinquishment with a map at a scale of 1:250,000 indicating lands to be relinquished.

(c) To the extent possible, relinquished lands must be comprised of full sections and described by section, township, range and meridian, or by other legal subdivision.

(d) After relinquishment, retained lands must be reasonably compact and contiguous.

(e) If on or before the fourth anniversary of the Effective Date of this license, and on or before each successive anniversary, the licensee fails to deliver to the department the information required in (b) of this section the commissioner will designate lands to be relinquished and notify the licensee in writing.

(f) Relinquishment of lands under this section does not affect the work commitment stated in Schedule 2.

10. FORCE MAJEURE. (a) If by the fourth anniversary of this license, the state determines that the licensee has been prevented by Force Majeure from performing an act that would maintain this license, the Effective Date of this license shall be extended by adding the time lost as result of the Force Majeure.

(b) If Force Majeure occurs after the fourth anniversary and before the expiration of the term of this license, the term of this license shall be extended by adding the period of time lost as a result of the Force Majeure.

11. AUDIT. The commissioner will, at the commissioner's discretion, audit expenditures as set out in 11 AAC 82.960. The licensee shall keep and have in its possession books and records showing all expenditures regarding the licensee's direct exploration expenditures, reports, data, or other information relevant to the drilling of an oil and gas exploration well or the gathering of geologic or geophysical data, whether or not that information is confidential. The licensee shall permit the state or its agents to examine these books and records at all reasonable times. Upon request by the state, the licensee's books and records shall be made available to the state at the state office designated by the state. These books and records must employ methods and techniques that will ensure the most accurate figures reasonably available. The licensee shall use generally accepted accounting procedures consistently applied.

12. PLAN OF OPERATIONS. (a) Before operations may be undertaken on the licensed land, the licensee shall comply with the applicable statutes and regulations in effect on the date the proposed activity is scheduled to commence. Each operation conducted under this license is subject to the provisions of 11 AAC 83.158 and 11 AAC 96.010 – 11 AAC 96.140.

(b) No operations may be undertaken until a plan of operations has been approved by the state. All of the licensee's operations must be in conformance with the approved plan of operations. The state's approval does not relieve the licensee of its obligation to obtain approvals and permits required by other governmental agencies having regulatory authority over those operations.

(c) Before undertaking operations on or in the licensed land, the licensee shall provide for full payment of all damages sustained by the owner of the surface estate by reason of entering on the land. The licensee may satisfy this requirement by obtaining either written consent of the surface owner, or posting a surety bond determined by the director to be sufficient to secure the owner for damages. This requirement applies to all privately-owned surface areas regardless of whether the rights in the surface estate devolve from a state or federal conveyance.

(d) If the licensee undertakes any operations on the licensed land without having first complied with subparagraph (c) of this section, the director may issue a verbal or written Notice of Cessation notifying the licensee to cease all operations on or in the licensed area within 24 hours. Upon issuing a Notice of Cessation, the director shall schedule a hearing to determine the amount of surety bond the licensee will be required to post before recommencing operations on the licensed land. If the licensee fails to cease operations as directed, the state may immediately and without further notice revoke the license pending a hearing and a bond determination.

(e) For an exploratory drilling operation, a licensee shall notify and provide an opportunity for a representative of the department to

- (1) be on-site for drilling, coring, and testing; and
- (2) examine the core after drilling.

13. INSPECTION. The licensee shall keep open at all reasonable times, for inspection by any duly authorized representative of the State of Alaska, the licensed area, all wells, improvements, machinery, and fixtures on the licensed area, and all reports and records relative to operations and surveys or investigations on or with regard to the licensed area or under this license. Upon request, the licensee shall furnish the State of Alaska with copies of and extracts from any such reports and records.

14. ASSIGNMENT. This license, or an interest in this license, may, with the approval of the state, be assigned or otherwise transferred to any person or persons qualified to hold a license. No assignment, sublease, or other transfer of an interest in this license is binding upon the state unless approved by the commissioner. The licensee shall remain liable for all obligations under this license accruing prior to the approval by the commissioner of any assignment, or other transfer of an interest in this license. All provisions of this license will extend to and be binding upon the heirs, administrators, successors, and assigns of the state and the licensee. Applications for approval of an assignment, or other transfer must comply with all applicable regulations and must be filed within 90 days after the date of final execution of the instrument of transfer. The state will approve a transfer of an undivided interest in this license unless the transfer would adversely affect the interests of the state or the application does not comply with applicable regulations. The state will disapprove a transfer of a divided interest in this license if the transfer covers only a portion of the license unless the licensee demonstrates that the proposed transfer of a divided interest is reasonably necessary to accomplish exploration of the licensed land. The state will make a written finding

stating the reasons for disapproval of a transfer of a divided interest. Where an assignment or other transfer is made of all or a part of the licensee's interest in a portion of the licensed land, this license may, at the option of the state or upon request of the transferee and with the approval of the state, be severed, and a separate and distinct license will be issued to the transferee having the same Effective Date and terms as this license.

15. SURRENDER. The licensee may, at any time, file with the state a written surrender of rights under this license. Upon the Effective Date of the surrender, the licensee shall forfeit to the state the security bond required under Paragraph 7 of this license.

16. TERMINATION (a) The commissioner will, in the commissioner's discretion, terminate this license whenever the licensee fails to comply with any of its provisions, applicable statutes, regulations, or stipulations and the failure continues for a period of 60 days following written notice by the commissioner to the licensee of failure to comply. Upon termination, the licensee shall forfeit to the state the security bond required under paragraph 7 of this license.

(b) If the licensee has not completed at least 25 percent of the licensee's total specified work commitment, as measured by the licensee's direct exploration expenditures, this license will automatically terminate on the fourth anniversary of the Effective Date of the issuance of the license.

17. RIGHTS UPON TERMINATION. Upon the surrender or termination as to all or any portion of the licensed land, the licensee will be directed in writing by the state and will have the right at any time within a period of one year after the termination, or any extension of that period as may be granted by the state, to remove from the licensed land or portion of the licensed land all machinery, equipment, tools, and materials. Upon the expiration of that period or extension of that period and at the option of the state, any machinery, equipment, tools, and materials that the licensee has not removed from the licensed land or portion of the licensed land become the property of the state or may be removed by the state at the licensee's expense. At the option of the state, all improvements such as roads, pads, and wells must either be abandoned and the sites rehabilitated by the licensee to the satisfaction of the state, or be left intact and the licensee absolved of all further responsibility as to their maintenance, repair, and eventual abandonment and rehabilitation. Subject to the above conditions, the licensee shall deliver the licensed land or those portions of the licensed land in good condition.

18. DAMAGES AND INDEMNIFICATION. (a) The licensee shall indemnify the state for, and hold it harmless from, any claim, including claims for loss or damage to property or injury to any person caused by or resulting from any act or omission committed under this license by or on behalf of the licensee. The licensee is not responsible to the state under this subparagraph for any loss, damage, or injury caused by or resulting from the sole negligence of the state.

(b) The licensee expressly waives any defense to an action for breach of a provision of this license or for damages resulting from an oil spill, well blow-out, or other harm to the environment that is based on an act or omission committed by an independent contractor in the licensee's employ. The licensee expressly agrees to assume responsibility for all actions of its independent contractors.

19. AUTHORIZED REPRESENTATIVES. The Director of the Division of Oil and Gas, Department of Natural Resources, State of Alaska, and the person executing this license on behalf of the licensee shall be authorized representatives for their respective principals for the purposes of administering this license. The state or the licensee may change the designation of its authorized representative or the address to which notices to that representative are to be sent by a notice given in accordance with Paragraph 20 below. When activities pursuant to a plan of operations are underway, the licensee shall also designate, pursuant to a notice under Paragraph 20 below, by name, job title, and address, an agent who will be present in the state during all license activities.

20. NOTICES; PROTEST. (a) Any notices required or permitted under this license must be by electronic media producing a permanent record or in writing and must be given personally or by registered or certified mail, return receipt requested, addressed as follows:

TO THE STATE:

DIRECTOR, DIVISION OF OIL AND GAS
DEPARTMENT OF NATURAL RESOURCES
550 WEST 7TH AVENUE, SUITE 800
ANCHORAGE, ALASKA 99501-3560

TO THE LICENSEE:

(b) Any notice given under this paragraph will be effective when delivered to the above authorized representative.

21. APPEALS. The licensee shall appeal decisions of the commissioner related to this license as provided by 11 AAC 82.963.

22. STATUTES AND REGULATIONS. This license is subject to all applicable state and federal statutes and regulations in effect on the Effective Date of this license, and insofar as is constitutionally permissible, to all statutes and regulations placed in effect after the Effective Date of this license. A reference to a statute or regulation in this license includes any future change in that statute or regulation whether by amendment, repeal and replacement, or other means. This license does not limit the power of the State of Alaska or the United States of America to enact and enforce legislation or to promulgate and enforce regulations affecting, directly or indirectly, the activities of the licensee or its agents in connection with this license or the value of the interest held under this license. In case of conflicting provisions, statutes and regulations take precedence over this license.

23. INTERPRETATION. This license is to be interpreted in accordance with the rules applicable to the interpretation of contracts made in the State of Alaska. The paragraph headings are not part of this license and are inserted only for convenience. The state and the licensee expressly agree that the law of the State of Alaska will apply in any judicial proceeding affecting this license.

24. WAIVER OF CONDITIONS. The state reserves the right to waive any breach of a provision of this license, but any such waiver extends only to the particular breach so waived and does not limit the rights of the state with respect to any future breach; nor will the waiver of a particular breach prevent cancellation of this license for any other cause or for the same cause occurring at another time. Notwithstanding the foregoing, the state will not be deemed to have waived a provision of this license unless it does so in writing.

25. SEVERABILITY. If it is finally determined in any judicial proceeding that any provision of this license is invalid, the state and the licensee may jointly agree by a written amendment to this license that, in consideration of the provisions in that written amendment, the invalid portion will be treated as severed from this license and that the remainder of this license, as amended, will remain in effect.

26. CONDITIONAL LICENSE. If all or a part of the licensed land is land that has been selected by the state under laws of the United States granting lands to the state, but the land has not been patented to the state by the United States, then this license is conditional until the patent becomes effective.

27. NONDISCRIMINATION. The licensee and the licensee's contractors and subcontractors may not discriminate against any employee or applicant because of race, religion, marital status, change in marital status, pregnancy, parenthood, physical handicap, color, sex, age, or national origin as set out in AS 18.80.220. The licensee and its contractors and subcontractors must, on beginning any operations under this license, post in a conspicuous place notices setting out this nondiscrimination provision.

28. DEFINITIONS. To the extent that the words and phrases used in this license are defined in 11 AAC 82.990, those definitions shall apply. With respect to all other words and phrases used in this license, they are to be interpreted where possible in the manner required in respect to the interpretation of statutes by AS 01.10.040. However, the following words have the following meanings unless the context unavoidably requires otherwise.

(1) "Anniversary Date" means the date in each successive calendar year following the Effective Date, that is the same as the Effective Date.

(2) "Associated Substances" means all substances except helium produced as an incident of production of Oil or Gas by ordinary production methods and not defined in this license as Oil or Gas;

(3) "Effective Date" means the first day of the month following the date on which the exploration license or, if an extension is granted, the extension was signed on behalf of the state or, upon written request, on the first day of the month in which it was signed on behalf of the state.

(6) "Oil" means crude petroleum oil and other hydrocarbons, regardless of gravity, that are produced in liquid form by ordinary production methods, including liquid hydrocarbons known as distillate or condensate recovered by separation from Gas other than at a Gas processing plant.